2018 Second Quarter
Results Conference Call
August 8, 2018

Notice: This transcript contains references to non-GAAP financial measures. A presentation of the most directly comparable GAAP measures and reconciliations to non-GAAP financial measures used in this presentation is available on our website at genlp.com and click on the non-GAAP Reconciliations icon at the Investor Relations page.

Welcome to the 2018 Second Quarter Conference Call for Genesis Energy. Genesis has four business segments. The Offshore Pipeline Transportation Division is engaged in providing the critical infrastructure to move oil produced from the long-lived, world-class reservoirs from the deepwater Gulf of Mexico to onshore refining centers. The Sodium Minerals and Sulfur Services Division includes trona and trona-based exploring, mining, processing, producing, marketing and selling activities, as well as the processing of sour gas streams to remove sulfur at refining operations. The Onshore Facilities and Transportation Division is engaged in the transportation, handling, blending, storage and supply of energy products, including crude oil and refined products. The Marine Transportation Division is engaged in the maritime transportation of primarily refined petroleum products. Genesis' operations are primarily located in Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida, Wyoming and the Gulf of Mexico.

During this conference call, management may be making forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The law provides safe harbor protection to encourage companies to provide forward-looking information. Genesis intends to avail itself of those safe harbor provisions and directs you to its most recently filed and future filings with the Securities Exchange Commission. We also encourage you to visit our website at genesisenergy.com where a copy of the press release we issued today is located. The press release also presents a reconciliation of non-GAAP financial measures to the most comparable GAAP financial measures.

At this time, I would like to introduce Grant Sims, CEO of Genesis Energy, L.P. Mr. Sims will be joined by Bob Deere, Chief Financial Officer, and Karen Pape, Chief Accounting Officer.

Introduction and Comments on Second Quarter 2018

[Grant]

Good morning and welcome to all.

As mentioned in this morning's earnings release, we have entered into an option agreement to sell certain non-core assets. In return for the option, we will receive a $30 million upfront option payment which would ultimately be applied to the final purchase price subject to certain terms and conditions. We are in a position at this point to announce the option is for our Powder River Basin assets and the option holder is SilverCreek Midstream in conjunction with Tailwater Capital and the Energy and Minerals Group, two large, sophisticated and respected energy focused investment shops.

While there can be no guarantees that we ultimately consummate and close a transaction, we currently expect to sign and close in the third quarter. Proceeds from the sale would be used to pay down outstandings under our revolving credit facility and for general corporate purposes. On a pro forma basis, we would expect this to reduce our bank compliance leverage by more than three-tenths of a turn and meaningfully contribute to our ultimate long term goal of around 4 times or less on our leverage calculation.

Turning to our quarterly results, our businesses in the quarter continued to perform well and delivered financial results that provided 1.55 times coverage of our sequentially increased quarterly distribution.

Something that we are focused on is performance below our expectations in our offshore business. Three particular major fields have underperformed our expectations over the last 2-3 quarters. One field we believe is underperforming as a result of reservoir quality degradation and not due to mechanical factors. Offsetting this in future years are two subsea tie-backs to the same dedicated in-field production facility scheduled to come online; one in early 2019 and one later in 2019. Between now and then, however, our segment margin will be around $5 million a quarter less than what we had previously anticipated.

The other two large underperforming fields we think are predominantly timing related. To maximize reserve recoveries, the operator appears to be producing at a slower rate than communicated to us last year. This lower current level, and yet consistent longer-term production, nonetheless has negatively affected our reasonably anticipated segment margin by approximately $5 million a quarter.

Longer term we are quite bullish on and pleased with the activity in and around our substantial footprint of assets in the Gulf of Mexico. Additionally, We are currently seeing increasing demand for our assets from production that is currently dedicated to 3rd party pipelines but is unable to get to shore due to such competitive pipelines being, in our estimation, oversubscribed. . Given our excess capacity and connectivity on certain of our systems, we expect to benefit from this takeaway capacity constraint in future periods. There are certain scenarios where we could benefit from this market dynamic by as much as $7 million a quarter for at least the next couple of years. Stay tuned as things unfold into the end of the year.

Our recently acquired soda ash operations have continued to exceed expectations. We believe we are on track to produce $165-175 million in margin for 2018, up from the previously discussed range of $155-165 million. This is primarily driven by higher than expected ANSAC export pricing pushed by higher than expected Chinese domestic pricing influenced by continued environmental inspections resulting in tightened export supply. Turkish supply from Kazan continues to ramp slower than expected and therefore has been unable to backfill the reduced and higher price exports out of China. Worldwide demand for soda ash continues to be strong. It is these factors that have led to our increase in expected margin of some $10 million for the full year, even with a long-wall move negatively affecting the third quarter by $3 or $4 million.

Our historical refinery services business continues to perform well and benefits from many of the macro factors and worldwide economic activity that also positively affects soda ash.

Volumes through our onshore terminals and in our pipelines have increased from the year earlier period and sequentially, although to date not at the levels we had previously anticipated. However, based upon July and known nominations for the remainder of the third quarter, we would expect to see meaningful growth in future quarters, especially at our Scenic Station facility servicing the ExxonMobil Baton Rouge refinery in Louisiana. Railroad capacity out of Canada has been expanded and we are now seeing the benefits in volumes landed at Scenic Station which we expect to continue to ramp through the end of 2018 and into 2019.

We would anticipate volumes to increase later this year and into 2019 in Texas as integrity work is completed on a downstream pipeline which currently has constrained physical flows to under the minimum volume commitment of our customer.

Turning to marine, margin actually increased slightly on a sequential quarterly basis for the second quarter in a row. While we are reasonably hopeful we've put in a bottom for the quarterly segment margin from our entire fleet of assets, we have no expectation of the fundamentals for marine transportation showing any significant improvement through at least the next several years. We certainly have significant operational leverage if things improve sooner.

In summary, the net effect of this financial performance is slightly lower quarterly, and cumulative, EBITDA than we had expected when we announced our capital reallocation plan last fall. While the coverage of our distribution is strong, the pace of our natural de-levering is slower. We will continue to target and ultimately move to around 4 times or less on our leverage calculation, but it could take a little longer than we had originally anticipated. We intend to be prudent and diligent in maintaining financial flexibility to allow the partnership to opportunistically build long term value for all stakeholders.

As always, we would like to recognize the efforts and commitment of all those with whom we are fortunate enough to work.

With that, I’ll turn it back to the moderator for any questions.

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